

Major Bridges Construction Project of the National Road Network (37 Major Bridges Construction Project - JICA) - 2013

The audit of the financial statements of the Major Bridges Construction Project of the National Road Network (37 Major Bridges Construction Project - JICA) for the first accounting period ended 31 December 2013 was carried out under my direction in pursuance of provision in Article 154 (1) of the constitution of Democratic Socialist Republic of Sri Lanka. This Project is implemented under an Agreement SL - P108 entered into between the Japan International Cooperation Agency and the Democratic Socialist Republic of Sri Lanka on 14 March 2013.

1.2 Implementation, Objectives, Funding and Duration of the Project

According to the Loan Agreements of the Project, then Ministry of Highways, Ports and Shipping presently, the Ministry of Highways, Higher Education and Investment Promotion is the Executing Agency and the Road Development Authority (RDA) is the Implementing Agency of the Project. The objective of the Project is to improve the National Road Network by constructing major bridges on the National Roads, there by contributing to economic development. The Japan International Corporation Agency had agreed to provide Japanese Yen 12,381 million equivalent to Rs.20,993 million for the Project. The activities of the Project were commenced in March 2013 and scheduled to be completed in 2019.

1.3 Responsibility of the Management for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Generally Accepted Accounting Principles. This responsibility includes: designing, implementing and maintaining control relevant to the preparation and fair presentation of financial statements that are free from material misstatements, whether due to fraud or error, selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

2. Scope of Audit and Basis of Opinion

My responsibility is to express an opinion on these financial statements based on my audit. Audit opinion comments and findings in this report are based on review of the financial statements presented to audit and substantive tests of samples of transactions. The scope and extent of such review and tests were such as to enable as wide an audit coverage as possible within the limitations of staff, other resources and time available to me. The audit was carried out in accordance with Sri Lanka Auditing Standards to obtain reasonable assurance as to whether the financial statements are free from material misstatements. The audit includes the examination on a test basis of evidence supporting the amounts and disclosures in financial statements and assessment of accounting policies used and significant estimates made by the managements in the preparation of financial statements as well as evaluating their overall presentation. I have obtained sufficient information and explanations which to the best of my knowledge and belief were necessary for the purpose of my audit. I therefore believe that my audit provide reasonable basis for my opinion. The examination also included such test of systems and controls,

transactions, assets, liabilities and accounting records as deemed necessary to assess the following.

- (a) Whether the systems and controls were adequate from the point of view of internal control so as to ensure a satisfactory control over Project management and the reliability of books, records, etc. relating to the operations of the Project,
- (b) Whether adequate accounting records were maintained on a continuing basis to show the expenditure of the Project from the funds of the Government of Sri Lanka and the Lending Agency, the progress of the Project in financial and physical terms, the assets and liabilities arising from operations of the Project, the identifications of purchases made out of the Loan, etc,
- (c) Whether the expenditure had been correctly identified according to the classification adopted for the implementation of the Project, and
- (d) Whether the financial statements had been prepared on the basis of Generally Accepted Accounting Principles.

3. Opinion

So far as appears from my examination and to the best of information and according to the explanations given to me, except for the effects of the adjustments arising from the matters referred to in paragraph 5 of this report, I am of opinion that;

- (a) the Project had maintained proper accounting records for the period ended 31 December 2013 and the financial statements give a true and fair view of the state of affairs of the Project as at 31 December 2013 in accordance with Generally Accepted Accounting Principles.
- (b) the funds provided had been utilized for the purposes for which they were provided.

4. Financial Statements

4.1 Financial Performance

According to the financial statements presented and information made available, the expenditure of the Project for the first accounting period ended 31 December 2013 amounted to Rs.16,311,851. The following statement shows a summary of the expenditure for the year under review.

Description	Expenditure for the period ended 31 December 2013 -----
-----	<u>Rs.</u>
Property, Plant and Equipment	138,558
Project Management Expenses	9,081,098
Civil works	1,074,850
Consultancy	<u>6,017,345</u>
	<u>16,311,851</u>

5. Audit Observations

5.1 Accounting Deficiencies

The following observations are made.

- (a) A sum of Rs.814,533 incurred in connection with the activities which were not related with the activities of the Project had been charged as the operational expenses of the Project.
- (b) A sum of Rs.531,216 spent for the installation of telephone and communication system had been charged as operating cost of the Project without considering its capital nature.

5.2 Un reconciled Balances

According to the Ledger Account of the Project, the total disbursement as at 31 December 2013 was Rs.5,361,141 whereas information provided by the General Treasury a sum of Rs.5,465,650 had been disbursed. The reason for the difference of Rs.104,509 had not been explained.

5.3 Lack of Evidence for Audit

A separate Register of Fixed Assets had not been maintained by the Project, instead a common record had been maintained for the fixed assets of the Projects managed by the Special Project Management Unit .

5.4 Non Compliance with Laws , Rules and Regulations

A sum of Rs.480,845 had been remitted to Road Development Authority up to 31 December 2013 as over head charges contrary to the instructions given in the Section 8.3.9 of the Circular No. PED/12 dated 02 June 2003 issued by the Department of Public Enterprises of the General Treasury.

6. Financial and Operating Review

6.1 Utilization of Funds

According to the financial statements and information made available, certain significant statistics relating to financing of the Project and the utilization of funds during the period under review are shown below.

Source	Amounts agreed to be financed as per Loan Agreement		Provisions made in the Budget Estimate for the year 2013	Funds utilized as at 31 December 2013
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	JPY	Rs.	Rs.	Rs.
	<u>million</u>	<u>million</u>	<u>million</u>	<u>million</u>
JICA	12,381	20,993		5.3
GOSL	<u>3,751</u>	<u>6,336</u>	<u>7.5</u>	<u>7.5</u>
Total	<u>16,132</u>	<u>27,329</u>	<u>7.5</u>	<u>12.8</u> *

* The amount does not agree with the figure shown in the paragraph 4.1 of the report, as advances and payables at the end of the year is not included.

6.2 Physical Performance

Although the detailed design had been carried out by the Consultant, the construction works of the bridges had not been commenced even as at 31 December 2013.

6.3 Consultancy

It was observed in audit that the consultancy contract for construction of bridges had been awarded and implemented improperly by the Project due to following reasons.

- (a) According to the information received, the Consultant had entered in to an agreement with the Project on 09 February 2013. However, payments of JPY 2,917,000 and Rs 1,178,100 had been paid to the Consultant on 21 October 2012 and thus indicated that the Consultant had commenced the works before entering into an agreement with the Project.

- (b) According to the Section 6.5(a) of the Condition of Contract, mobilization advance should be recovered in 12 equal instalments. However, an interim payment amounting to Rs.5,361,141 had been paid subsequently to the Consultant without recovering the mobilization advance. Further, the mobilization recovery period had been extended up to March 2015, the guarantee bond made on mobilization advance which was made up to 31 January 2015 had not been extended.
- (c) According to the Clause No.6.5(l) of Terms of Reference of the Consultancy Agreement, all the items in interim payment certificate should be proved with necessary supporting documents. However, payments aggregating Rs.823,200 had been made on consultancy works without forwarding supporting documents.
- (d) According to Clause No. 03 of Terms of Reference of the Consultancy Agreement, all the testing and measurements for detailed designs should be carried out by the Consultant. However, it was observed that those activities had done by an external party at a cost of Rs.565,870 and settled the payments by the Project.

6.4 Matters in Contentious Nature

The following observations are made.

- (a) According to the financial plan of the Project, the Project cash flow for the year 2013 was JPY 45 million equivalent to Rs.55.8 million under foreign component and Rs.4 million under local component. However, the work programme had not been prepared properly and a sum of JPY 2.91 million equivalents to Rs.7.56 million only had been utilized during the year under review. Therefore, commitment charges amounting to Rs.3,152,321 had been charged by the Lending Agency on un-utilized cash balance.
- (b) According to the schedule F(II) of the Value Added Tax No.14 of 2002, the Project is entitled for exception for payment of Value Added Tax. However, the Project had not taken action to make request for the exemptions of tax and a sum of Rs.23,557,307 had been spent there on.